

Message Text

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SUBJECT: USG AID TO ISRAEL.

1. SUMMARY: FINMIN SAPIR IN FORTHCOMING VISIT WILL PROBABLY QUERY
US OFFICIALS ON PRESENT PLANNING FOR FY 74 LEVEL OF US ASSISTANCE
TO ISRAEL. ISRAEL'S ECONOMY HAS THRIVED SINCE CURRENT EVE OF US

ECONOMIC ASSISTANCE FIRST REACHED. DEFENSE SPENDING WHILE STILL
HIGH IS TAKING DECREASING PERCENTAGE OF GOVT BUDGET AND GNP,
DEFICIT IN BALANCE OF PAYMENTS LARGELY COVERED BY TRADITIONAL
NON-USG SOURCES, FOREIGN EXCHANGE RESERVES EXPECTED REACH DOLS
1,600 MILLION IN 1973, BURDEN OF FOREIGN DEBT SERVICING STILL
BEARABLE. EMB BELIEVES IT IMPORTANT THAT SOME VISIBLE CUT IN
LEVEL US AID BE MADE IN FY 1974 IN ORDER SET TREND FOR DECREASES
IN FUTURE. END SUMMARY.

2. ALTHOUGH WE UNDERSTAND FINMIN SAPIR DOES NOT PLAN OFFICIAL
MEETINGS WITH USG OFFICIALS DURING FORTHCOMING US VISIT, WE ANTI-
CIPATE HE MAY UTILIZE LUNCH AMB. DINITZ PLANNING FOR HIM TO
QUERUS US ON OUR PRESENT ATTITUDES TOWARD LEVEL OF FY 1974
ASSISTANCE, FOLLOWING UP HIS FEBRUARY CONVERSATIONS WITH SECRETARY
SHULTZ AND ADMINISTRATION'S ANNOUNCEMENT OF PLANS TO CUT
SUPPORTING
ASSISTANCE FROM DOLS 50 MILLION TO DOLS 25 MILLION. FOLLOWING
ANALYSIS MAY BE HELPFUL IN DISCUSSIONS.

3. ISRAEL'S ECONOMY IS QUITE CHANGED SINCE BLUE PAPER (FIRST FORMAL
ISRAELI AID REQUEST) WAS SUBMITTED TO USG IN SEPT 1969; NP HAS
GROWN FROM IL 15,800 MILLION (DOLS 4,500 MILLION) IN 1969 TO
ESTIMATED IL 36,720 MILLION (DOLS 8,750 MILLION) FOR 1973.

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USG AID HAS BEEN LARGEST SINGLE FACTOR IN SOLVING ECONOMIC PROBLEM WHICH CAUSED ISRAEL TO TURN TO US FOR AID FOUR YEARS AGO AND WE HAVE REACHED STAGE WHERE REEVALUATION OF OUR AID RELATIONSHIP IS DESIRABLE.

4. CURRENT AND PLANNED DEFENSE SPENDING REFLECTS ISRAEL' S PERCEPTION OF ITS GREATLY IMPROVED MILITARY SITUATION. DEFENSE EXPENDITURE AS PERCENTAGE OF BUDGET AND GNP, AND DEFENSE IMPORTS AS PERCENTAGE OF TOTAL IMPORTS, HAVE DECLINED EACH YEAR SINCE 1970, INCLUDING 1973, AND NEW ECONOMIC PLAN FORECASTS CONTINUATION OF THIS TREND. DEFENSE BUDGET IN REAL TERMS, THAT IS AFTER ALLOWING FOR PRICE INCREASES, HAS LEVELED OFF. DEFENSE IMPORTS DECLINED ABSOLUTELY BOTH IN 1971 AND 1972, AND ONLY MODEST INCREASE IS EXPECTED THIS YEAR.

5. ALTHOUGH BALANCE OF PAYMENTS CONTINUES TO BE STRONGLY NEGATIVE, TRADITIONAL SOURCES OF CAPITAL IMPORTS, NOT INCLUDING USG AID, CONTINUE TO PRODUCE ALMOST ENOUGH TO COVER DEFICIT. DESPITE PERSISTENT AND RISING INFLATION THERE HAS BEEN NO DRAMATIC INCREASE IN IMPORTS AND EXPORTS GO ON RISING.

6. FOREIGN EXCHANGE RESERVES HAVE MULTIPLIED 3-1/2 TIMES DURING LAST THREE YEARS, AND SHOULD REACH DOLS 1,600 MILLION BY END OF THIS YEAR. THIS IS EQUIVALENT TO FOUR MONTHS' IMPORTS OF GOOD AND SERVICES. IN OUR JUDGMENT RESERVES ARE MORE THAN SUFFICIENT FOR ISRAEL' S NEEDS. DURING MARCH 1970- APRIL 1973 RESERVES INCREASED BY 1,040.0 MILLION DOLLARS (FROM 415.2 TO 1,455.2 MILLION DOLLARS) DEMONSTRATING ROUGH CORRELATION BETWEEN TOTAL USG AID, RISE IN DEBT TO USG AND RISE IN RESERVES.

7. FOREIGN DEBT REACHED DOLS 4.3 BILLION IN MARCH 1973, OR DOLS 1,335 PER CAPITA, APPARENTLY HIGHEST PER CAPITA FOREIGN DEBT IN WORLD. SINCE MARCH 1970, DEBT HAS NEARLY DOUBLED; BUT 75 PERCENT OF INCREMENT IS ATTRIBUTABLE TO LOW- INTEREST BORROWING. ABILITY TO SERVICE DEBT CONTINUES TO BE GOOD, ALTHOUGH SHEER SIZE OF ANNUAL PAYMENTS OF INTEREST AND PRINCIPAL INCLINES ISRAELIS TO ARGUE THAT US AID IS NEEDED TO HELP COVER PAYMENTS ON PAST BORROWING.

8. IF DOLS 25 MILLION CUT IN SUPPORTING ASSISTANCE PROPOSED BY ADMINISTRATION IS RESTORED BY CONGRESS AND NO OTHER SOURCES
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OF CUTS ARE FOUND, FY 1974 WILL BE THIRD YEAR IN A ROW IN WHICH US AID ROUGHLY LEVEL AT AROUND DOLS 500 MILLION. WHILE WE UNDERSTAND ADMINISTRATION' S POSITION IN ASKING CONGRESS ONLY FOR DOLS 25 MILLION CUT WHEREAS CONSIDERABLY LARGER CUT COULD HAVE BEEN JUSTIFIED ON ECONOMIC GROUNDS AND ALSO DIFFICULTY OF GETTING ISRAELI AGREEMENT TO ANY CUT, ESPECIALLY TO GRANT

ASSISTANCE, WE BELIEVE IT IS IMPORTANT TO SET TREND OF DECREASING
AMOUNT OF AID. EACH YEAR AID CONTINUES AT PREVIOUS HIGH LEVELS
MAKES IT MORE DIFFICULT TO CUT IN FUTURE YEARS. NOT ONLY IS IT
MORE DIFFICULT TO WITHSTAND GENERAL POLITICAL PRESSURES BUT
CONTINUATION WEAKENS THOSE IN ISRAEL WHO SEE PATTERN OF
DEPENDENCE ON US CREATING DANGERS FOR HEALTHY DEVELOPMENT OF
ISRAELI ECONOMY.
ZURHELLEN

NOTE BY OC/ T: EXDIS CAPTION INSERTED PER S/ SO, MR. NEWLIN.

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